

# NEXUS GROUP

PROPERTY TAX CONSULTANTS

Commissioner Musgrave  
Indiana Department of Local Government Finance  
100 North Senate Ave., Room N1058  
Indianapolis, IN 46204

March 5, 2008

**RE: Laporte County 2006 Real Property Assessments**

Laporte County submitted a compliant ratio study in February 2007, subsequently approved by the Indiana Department of Local Government Finance (DLGF) in March 2007. The assessments contained therein were extracted from the county's assessment system around mid-December 2006 and were accurate at that time. Despite numerous minor changes to assessments between the date on which data was extracted and the date the assessments were finalized for billing purposes (late October 2007; approximately 10 months later), even a subsequent DLGF ratio study using billed assessed values finds that the vast majority of assessed values across all property classes are within state and IAAO guidelines.

However, a few taxpayers felt that the assessments were unfair and non-uniform. One of those taxpayers hired a private consultant to investigate the assessments. That consultant is Mr. Denne.

**Denne Report #1**

Denne's involvement surfaces with a letter on 2-28-07 and accompanying statistical analysis. The analysis makes two critical assumptions about Indiana assessments and the annual adjustment process. Unfortunately, both of these assumptions are in error. Those assumptions:

**1. A General Reassessment did not occur.**

This assumption is inherent in the comments in page 1, second paragraph, and further illustrated in page 2, first paragraph. Mr. Denne points out, "*Some of these factors would be expected, rather than indicative of sales chasing, if there had been a general reassessment between years 2005 and 2006.*"

Our position is that the lengthy list of assessment-related activities in total effectively constitutes the major components of a general reassessment. Values were not simply "factored up" by a change in relevant price level, as Mr. Denne contemplates in page 1, paragraph 2 of his text.

Mr. Denne made an attempt to understand the annual adjustment process as implemented by Laporte County. That serious oversight leads to an incorrect assumption about the process, and therefore, and unwarranted, unsupported conclusion.

2. **A comparison of 2005 assessed values and 2004-5 sales against 2006 assessments and 2004-5 sales can be used to draw inferences about the local assessment procedures.**

This method is proposed by Mr. Denne in page 2, paragraph 1 where he explains that a reliable measure for ascertaining "sales chasing" would compare *"COD's calculated for the ratios of the year-2005-assessments divided by validated sales prices and those calculated for the ratios of the year-2006-assessments divided by the same sales prices."*

That assumption could hardly be more incorrect.

Real property assessments for assessments years 2002-2005 inclusive are to be based on a valuation date of 1-1-99. Therefore, the 2005 assessments utilized by Mr. Denne are based on sales and other value-in-use observations to approximate value as of **1-1-99**. The 2006 assessments utilized by Mr. Denne as based on sales and other value-in-use observations to approximate value as of **1-1-05**.

The vastly improved COD measures as reported by Mr. Denne are therefore hardly surprising in that updated assessments based on more current sales information better reflect value as of 1-1-05 as compared to the 2005 assessments based on values from six years prior. The first Denne analysis suggests "sales chasing", but without support.

**Denne Report #1 – Result**

The DLGF opted to ignore the Denne Report #1, relying instead on their own analysis as well as that conducted on behalf of Laporte County.

**Denne Report #2**

Denne followed up the slipshod work on report #1 with additional analysis in October 2007. The suggested result had not changed, just the methodology.

Denne's October 2007 report produces a ratio study of **2006** assessed values in comparison with **2006** sales prices. Those dates are critical to the fatal flaw of Denne's October 2007 report. Keep in mind that 2006 assessments are based on sales occurring primarily during 2004-05 per 50 IAC 21. Sales occurring during 2006 would be the basis for 2007 assessments; still in process as of the date of this review..

Per the Denne October report, 2247 valid sales from **2006** were compared with **2006** assessed values for the same parcels (see page 6). The statistical analysis results are reported in Table 1 and Table 2. This fact is reiterated on Page 4, second paragraph.

*"Notionally, using sales from 2006 to evaluate the accuracy of such (2006) assessments would have helped to ensure the objectivity of the evaluation, inasmuch as those sales would normally have occurred after the assessors would have had their last opportunity to assess sold properties differently than those that had not been sold recently." See page 4 lines 23-26.*

Denne then continues with analysis in Tables 3 and 4 by augmenting the 2006 sales data with 472 usable valid sales from the 2004 and 2005 time period.

Denne received approximately the same number of valid sales in 2004 and 2005 as what was reported to the DLGF and what was used in the 2006 Laporte County ratio study (approximately 2900 sales). However, only 472 sales from that time period were utilized. The sales from 2004 and 2005 are combined with sales from 2006 in Table 3 and Table 4.

Again, Denne misses the market entirely in the second flawed work by failing to use the large set of sales from 2004-2005 available to him. Instead, he uses primarily sales from 2006 to form his opinions about the 2006 assessments. He failed to understand, again, the proper sales period that would apply to 2006 assessments.

His ratio study was inherently flawed and of no evidentiary value. Assessments for 2006 are based on sales from 2004-2005 per 50 IAC 14 and 50 IAC 21; a casual reading of the regulations by Mr. Denne would have changed his perspective.

Yet Denne and his funding source pressed forward with the still-unsubstantiated belief that Laporte County 2006 real property assessments were wrong, despite still producing no accurate data to support that notion.

### **Denne Report #3**

After the DLGF requested data from Mr. Denne to support the flawed conclusions of study #2, he instead produced a third study. This study appears to abandon the claims of study #2, returning instead to a claim of "sales chasing", first evidenced in his initial report of February 2007.

For those not attuned to such a term, sales chasing is the practice of using the sale of a property to trigger a change in its assessed value of (or near) the selling price. In contrast, the appraised value of similar unsold property is not changed. Sales chasing would produce a significant unfair difference in the assessments of sold property as compared to similar unsold property.

### **IAAO Standard on Sales Chasing**

What is the IAAO standard or statistical measure pertaining to sales chasing? The IAAO has no such standard and proposes no statistical test to ascertain the presence of "sales chasing". Likewise, Indiana Code and Indiana Administrative Code have no standard on this practice. While we agree that sales chasing is to be avoided, there is no standard to which to adhere, nor a recognized measurement to detect the practice.

Did sales chasing occur in Laporte County in regards to the 2006 assessed values? The definition would suggest that for sales chasing to occur, the assessed values of sold property would change, while the assessed values of unsold property would remain constant.

In 2006, Laporte County possessed approximately 40,337 improved parcels across the residential, commercial and industrial classifications. 38,333 (95%) experienced a change in land value, grade, condition and/or effective age. Thus, unsold property experienced a change in one of the subjective elements of the assessment in 95% of the cases. For the sold property in the 2006 ratio study, there were 2328 parcels in these categories, with 2281 (98%) experiencing a change in assessment from one of these causes. Virtually every parcel experienced a change in one of the subjective elements of the assessment, and the changes occurred at a very high rate across both sold and unsold parcels. That's not evidence of sales chasing, that is evidence of adherence to 50 IAC 21 (Annual Adjustments).

So virtually every assessed value did indeed change, whether the property sold or not. That fact suggests good assessing methods, not sales chasing.

#### **Denne Invents a Test**

So how does Mr. Denne support a claim of sales chasing? Mr. Denne invents a statistical measure. Unfortunately, his technical is again flawed. Mr. Denne claims that if one looks only at the "subjective" elements of the assessment, and if those elements change more often those changed more often on sold than unsold property; it's indicative of sales chasing. Regrettably, Mr. Denne's proposed statistical test is, again, wrong.

#### **Land: Subjective or Objective?**

Mr. Denne claims that the only subjective (ie. discretionary, open to interpretation) elements of an assessment in Indiana are the elements of: grade, condition, effective date of construction, physical depreciation and obsolescence. Purposefully, this idea overlooks the most subjective element of improved property assessments: **land value**.

Even the greatest detractors of the current Laporte County assessments would attest that the land values are very subjective. We agree wholeheartedly.

#### **IAAO States That Land Values are Subjective**

Page 157 of "Property Appraisal and Assessment Administration" (1990) published by the International Association of Assessing Officers (IAAO) states that the following elements of an assessment are "qualitative"; construction quality (ie. grade), condition, and most importantly: site/location value (see Table 2).

#### **Denne: Wrong Again**

Mr. Denne excluded a key variable from his list of possible factors that might change in value from one year to the next. Even the most inexperienced assessment official can read the plain language of page 157, yet Denne assumes away the significant impact that changing land values had on assessed values between 2005 and 2006, and between sold and unsold property. Laporte County changed the vast majority of base rates across all neighborhoods (residential and commercial), as well as hundreds of influence factors also affecting land values. To assume

these are constant, to assume that land values are unimportant is a gross and significant oversight.

What is Mr. Denne's rationale for such consistent errors in judgment and basic assessment methodology? It's important to be reminded that Mr. Denne's benefactor in this matter started out his onslaught on Laporte County (pre-Mr. Denne) with a call for reassessment.

Land values changed for virtually every non-agricultural parcel in Laporte County between 2005 and 2006. By assuming that land is a objective assessment element, instead of correctly allowing it to be a **SUBJECTIVE** factor. Mr. Denne assumed away a critical element of the analysis. He did so incorrectly and in total contradiction of IAAO guidance on the matter.

The data indicates that the land value changed on 85% of unsold property, and not coincidentally, 85% of sold property in a comparison of 2005 vs. 2006 assessments. Grade, condition and other subjective elements of sold property indeed did change more frequently on sold property. However, assessment errors corrections are called for by the "Standard on Ratio Studies (IAAO), prior to the conduct of a ratio study. As the Standard calls for, "every valid sale should be utilized" (page 15) and that outlier ratios and "errors should be corrected and the property left in the sample" (page 19-20). We interpret "correction to be re-dress of all objective and subjective assessment elements, which is exactly what occurred on anomalous ratios.

Obviously, a true and fair review of all subjective assessment elements must allow the land component to be treated as a subjective factor in an assessment. Denne assumed apparently that land values were fixed or constant, independent of property wealth. Nothing could be further from the truth. Denne erred once again.

### **Conclusion**

Laporte County submitted an initial ratio study of 2006 real property assessments in late December 2006, and a subsequent study in February 2007. Despite many attempts to find fault with this study, and despite ten (10) months of subsequent changes and updates to assessments in the time period between the extract of assessments for the ratio study and the finalization of assessments for billing purposes, there is **NO DATA** suggesting that Laporte County assessments are flawed in any serious or consistent fashion.

All Mr. Denne's analyses are inherently flawed, demonstrating a poor background and understanding of the Indiana assessment process. His results assumption-driven and his assumptions in every instance are dead wrong, contradicted by a plain reading of Indiana Code, Indiana Administrative Code, the Indiana Real Property Manual & Guidelines, as well as IAAO publications.

The DLGF has only yesterday (March 4, 2008) produced a ratio study that, once corrected for various substantive flaws, supports in large part the 2006 real property assessments of Laporte County. There does exist minor statistical discrepancies produced by small sample sizes and small changes in assessments versus billed amounts occurring over the intervening time period. Keep in mind that ten months of changes to assessments took place between the ratio study extract and the billed assessments being finalized.

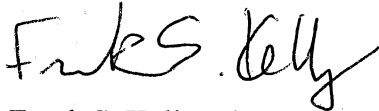
These changes are no different than what a similar study of any other Indiana county would produce, especially if one utilizes assessments or billing data from ten months subsequent to the approved ratio study. Obviously, there may be serious discrepancies on a few select parcels between the billed AV and the sales price. This may be attributable to data input error or other unknown factors. Regardless, such differences represent "outliers" and should rightly be excluded from analysis per the IAAO Standard on Ratio Studies. If the DLGF opts to enact a new review standard of comparing sales in the time period with billed assessments, then such a standard should be enacted for future ratio studies (2007 – forward), not for prior assessments.

Our data stands up to any charge of sales chasing. Unsold property experienced a change in one of the subjective elements of the assessment in 95% of the cases as compared to sold property experiencing such changes at a 98% frequency. Thus, virtually every parcel experienced a change in one of the subjective elements of the assessment, and the changes occurred at a very high rate across both sold and unsold parcels. That's not evidence of sales chasing, despite the claims from Mr. Denne; that is evidence of adherence to 50 IAC 21 (Annual Adjustments).

In the final examination, the DLGF has no accurate, reliable data in its possession that justifies a reassessment of any portion or property class in Laporte County.

We ask that the 2006 Real Property Assessed Values of Laporte County be once-again approved by the DLGF and that the county be allowed to move forward without further delay and expense to 2007 Real Property Assessed Values. For the DLGF to do otherwise would be contrary to a fair and impartial review of the extant data.

Regards,

A handwritten signature in black ink, appearing to read "Frank S. Kelly". The signature is fluid and cursive, with the first name "Frank" and last name "Kelly" clearly distinguishable.

Frank S. Kelly, Ph.D., President  
Nexus Group, Consultant to Laporte County Assessor